



SMALL BUSINESS ADMINISTRATION
STANDARD OPERATING PROCEDURE
NATIONAL

SUBJECT: BUSINESS LOAN PROCESSING	S.O.P.		REV
	SECTION 50	NO. 10	(4)(C)

INTRODUCTION

1. Purpose:

To update policy and procedural guidance for processing business loan applications.

2. Personnel Concerned:

Headquarters and field personnel engaged in business loan making activity.

3. Page Changes:

Remove

582-1 - 582-6

Insert

582-1 - 582-6

4. Originator:

Office of Financial Assistance (OFA)

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SBA Form 989 (5-90) Ref: SOP 00 23

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e. Personal Guarantees

The SBA requires the personal guaranty of any person owning 20 percent or more of the business. Consider requiring the guaranty of spouses where legal and appropriate. Lenders can require a third party guarantor if it strengthens an otherwise weak application.

f. New Business and Purchase of Existing Business

Applications to start or for a new business (any business less than 2 years old) and to achieve a change of ownership by purchase of an existing business or purchase of the entire interest of one or more of the current owners by the business are eligible under LowDoc. Lenders must thoroughly analyze and underwrite each request before considering it for an SBA guaranty. In all cases, the applicant must submit a comprehensive business plan to the lender. Lenders should analyze and evaluate the soundness and viability of business plans, along with financial projections.

Under LowDoc, the credit risks for these types of applications should be relatively easy to identify and understand as a general rule. The lender should submit more complicated start-up and buy-out applications under regular 7(a).

7. GUARANTY PERCENTAGE AND FEES

a. Percentage of SBA's Guaranty

The policies concerning the maximum percentage of guaranty which SBA provides on 7(a) loans are described in Subpart B, Chapter 1, paragraph 5. These same policies apply to loans processed under LowDoc procedures.

The basic rules are: If no other loans are involved, SBA will provide an 80 percent guaranty on loans of \$100,000 or less and a 75 percent guaranty on loans over \$100,000 but not exceeding \$150,000.

b. Guaranty Fee

The SBA guaranty fee for LowDoc loans is 3 of 1 percent of the guaranteed amount when the term of the loan is 12 months or less, regardless. When the guaranteed portion is \$80,000 or less, the guaranty fee is 2 percent of the amount guaranteed. When the guaranteed portion is more than \$80,000, the guaranty fee is 3 percent of the amount guaranteed.

c. Application Fees

A lender **cannot** charge a LowDoc applicant the following fees: processing fees, origination fees, application fees, points, brokerage fees, bonus points, or any other such fees.

A reasonable packaging fee which is in line with those charged for similar services in the local geographic area may be charged. This fee must be disclosed on the Borrower's Application page, including the name and address of the packager. The following closing costs are typically borne by the borrower: surveys, title reports, appraisals, filing and recording fees, lender's attorney fees, and other charges related to closing.

8. LOWDOC PROCESSING

a. Where Should a Lender Submit its Request for Guaranty?

Lenders will deal with one of two LowDoc Processing Centers (LDPC), depending on the location of the small business concern being financed. If the business is located in SBA Region I, II, III, IV, or V, the application will be submitted to the Hazard LDPC. If it is in SBA Region VI, VII, VIII, IX, or X, the application will be submitted to the Sacramento LDPC.

b. What Information Must the Lender Submit?

Only the LowDoc Application Form (SBA Form 4-L). Other documents should only be submitted upon request by SBA. However, it is very important that all of the data required on the application form be submitted. This will minimize the need for time consuming follow up calls and will permit the centers to operate in the most efficient manner possible. Faxing the application form will work best. Once an electronic loan guaranty transmission system is in place, it will be the preferred application process.

A lender **MUST VERIFY** the accuracy of the applicant's financial data against income tax data by submitting IRS Form 4506, Request for Copy or Transcript of Tax Form to the Internal Revenue Service (IRS). This verification is generally beneficial in evaluating both character and credit considerations. To prevent delays, it is a good idea for lenders to send the IRS Form 4506, which the applicant must sign, to the IRS at the earliest point in time in the application process. The IRS generally responds within 10 days. This policy does not apply to start-up applications (reference Q&A number 2 in Subpart A, chapter 6, paragraph 4f).

c. Submitting the Application

Lenders can either fax or mail the application package to the LDPC. Most will be faxed. Due to the limited space available to enter data on the LowDoc application form, it is critical that lenders ensure that applications are either printed legibly or typed to enable the faxed copies to be as clear as possible.

d. Approved Loans

If the application is approved, the LDPC will notify the lender by fax. Every attempt will be made to respond to a LowDoc guaranty request within 36 hours (1.5 business days), based upon consecutive working days. It is the responsibility of the lender to complete all other closing documents.

All Loan Authorizations will be prepared from a standardized list of terms and conditions nationwide as modified by covenants required by individual states.

e. Declined Loans

All Lenders submitting applications processed but declined under LowDoc procedures will receive a letter (generally by fax) from the LDPC stating the reasons for denial plus the applicant's rights to further consideration. Depending upon the reason(s) for decline, these rights may include the ability for the application to be reconsidered under LowDoc procedures or to be considered a first time application under standard (non-LowDoc) processing procedures, requiring a whole new submission. Some applications may have no rights for subsequent processing if a reason for decline is an ineligibility factor that cannot be overcome.

f. Reconsiderations

A request for subsequent consideration must be made in writing to the appropriate SBA district or branch office (not the LDPC) responsible for processing standard 7(a) applications where the business is or will be located.

- (1) The LDPC may decline some applications for reasons which cannot be overcome. Examples include where the applicant is a large business, or a principal is on prohibition or parole. Under such circumstances, there are no reconsideration rights for the applicant or lender.
- (2) Applications declined for any of the LowDoc eligibility reasons listed below can only be reprocessed under regular 7(a) procedures. This means subsequent processing must be accomplished with a new application under standard procedures. Under these circumstances, an SBA Form 4, SBA Form 4-I, and all required attachments and exhibits are required. This application will be considered to be a first time submission.
 - (a) The total loan amount request (including the balance of any other SBA loans except disaster loans) exceeds \$150,000;
 - (b) A character issue exists, based on a positive response to any of the questions in item IV of section D5 of SBA Form 4-L;
 - (c) A waiver of any 7(a) Loan Program or LowDoc regulation, policy, or procedure is needed;
 - (d) The applicant concern does not qualify under the special size standard established for LowDoc loans;
 - (e) The purpose is not eligible under LowDoc procedures (for example, more than 25 percent of the total proceeds are proposed for same institution debt refinancing);
 - (f) The type of loan is not eligible under LowDoc because the request involves a Special 7(a) Loan Program as referenced in paragraph 4h of this appendix.
 - (g)* A level of complexity exists which is not suited for LowDoc processing. The case requires in-depth credit or legal analysis for a full understanding of the risk(s) associated with the request. An example would be where the applicant is an affiliate to another company and there are numerous intercompany transactions that have to be accounted for before size can be accurately determined;

- (h)* A negative credit history (business and/or personal) exists, such as bankruptcy or a negative business or personal credit report.

NOTE:* LowDoc processed applications declined for LowDoc eligibility reasons (g) or (h) can be reconsidered under LowDoc procedures if the complexity or negative credit issue can be fully explained and/or resolved to the sole satisfaction of the SBA processing office. The SBA credit file must document this analysis.

- (3) SBA may reconsider applications declined for reasons other than those listed in (1) or (2) under LowDoc procedures at the appropriate field office. The lender must show in the application that the reason(s) for decline have been overcome. The SBA Loan Officer Report must comment on this justification and conclude with a recommendation.

If a reconsideration can continue to be processed under LowDoc procedures, the lender must submit the request within 30 days of the date of decline. The lender must make the request in writing, on its letterhead. The lender must address how each of the reasons for decline has been overcome, with particular attention to impact, if any, on repayment ability or business viability.

Field offices will not accept any requests for reconsideration under LowDoc procedures received after 30 days. Field offices must consider requests made after 30 days under standard processing procedures with a complete 7(a) application. The 7(a) application will be considered a first time submission.

- (4) Applicants declined under LowDoc procedures may benefit from the Agency's entrepreneurial development services available from:
- (a) Service Corp of Retired Executives (SCORE);
 - (b) Small Business Development Center (SBDC);
 - (c) Business Information Centers (BIC's); or

(d) One Stop Capital Shops (OSCS's).

SBA offers these services through its field office structure. The applicant may find the Agency's entrepreneurial development services useful to improve its documentation and internal operations.

- (5) Whenever an application processed under LowDoc procedures is declined, the LDPC will:
- (a) Notify the lender of the reasons for the decline, state the procedures for reconsideration, and identify the appropriate field office to contact for subsequent processing (if applicable);
 - (b) Forward the original decline file to the appropriate field office, to enable that office to expedite reconsideration if asked, and determine the appropriate non-financial services to offer the applicant and lender; and
 - (c) Maintain a copy of the original application file for 90 days.
- (6) Field offices must not use LowDoc procedures to process any application which has not been previously processed and declined by a LDPC.
- (7) Field offices must complete reconsideration within 36 hours. It is important that field offices educate their lenders on the necessity of providing a complete LowDoc reconsideration package. The request should fully explain how the reasons for decline have been overcome, including any impact, if any, on repayment ability or business viability.
- (8) Once declined under LowDoc, an application must not be submitted through any other expedited guaranty process, such as PLP or *SBAExpress*, unless otherwise indicated.